



GSAssociates, LLC.

Business Partners and Certified Public Accountants



Independent Auditor's System Report  
For Payphone Compensation  
As required by FCC Order 03-235  
Docket No. 96-128



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## **Independent Auditor's Report** **System Audit Report**

Board of Directors  
IDT Corporation

At the request of IDT Telecom's management, we have examined the call tracking systems of IDT Telecom for payphone calls in compliance with FCC Order 03-235, Docket No 96-128. Management is responsible for compliance with those requirements. (See Appendix 'B') Our responsibility is to express an opinion on IDT's compliance based on our examination.

Our examination included procedures to obtain reasonable assurance about whether the controls included in our audit were suitably designed to achieve the control objectives – namely, that the call tracking system of IDT accurately tracks payphone calls to completion and that IDT satisfactorily complied with and applied these controls and such controls will be placed in operation consistently in the future.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence of compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on IDT's compliance with specified requirements.

In our opinion, IDT complied, in all material respects, with the aforementioned requirements for the period mentioned through March 30, 2008. IDT has sufficient controls in place to provide reasonable assurance to achieve the control objectives namely that the IDT call tracking system accurately tracks payphone calls to completion.

The description of policies & procedures concerning Payphone Compensation at IDT, as well as information concerning tests of the operating effectiveness and payments made includes the period of Q2 2008. Future projection of such information is subject to the inherent risk that, because of change, the description may no longer portray those procedures in existence. The potential effectiveness of specific controls at IDT is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that, (1) changes made to the system or controls, (2) changes in processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions.

This report is intended solely for the information and use of IDT, and is not intended to be and should not be used by anyone other than the specified party.

*GSAssociates, CPAs*

GSAssociates  
September 30, 2008



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## **Overview of System Audit Requirements**

This System Audit Report covers FCC Order (03-235, Docket No 96-128), effective July 1, 2004 (the "Order"), requiring Interexchange Carriers (IXC's), LEC's, CLEC's and Switch Based Resellers (herein collectively or individually referred to as a "Carrier"), to establish and maintain a comprehensive Call Tracking System (CTS) which accurately reports and compensates Payphone Service Providers (PSP's).

The Order calls for an independent third party audit report in conformity with AICPA standards. The independent auditor's report shall conclude whether the CARRIER complied, in all material respects, with the factors set forth (below) regarding the CTS as follows:

- 1) Whether the Carrier's procedures accurately reflect the Commission's rules, including the attestation reporting requirements.
- 2) Whether the Carrier has a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone completed calls.
- 3) Whether the Carrier has effective data monitoring procedures.
- 4) Whether the Carrier adheres to established protocols to ensure that any software, personnel, or any other network changes do not adversely affect its payphone call tracking ability.
- 5) Whether the Carrier has created a compensable payphone call file by matching call detail records against payphone identifiers.
- 6) Whether the Carrier has procedures to incorporate call data into required reports.
- 7) Whether the Carrier has implemented procedures and controls needed to resolve disputes.
- 8) Whether the independent third-party auditor can test all critical controls and procedures to verify that errors are insubstantial.
- 9) Whether the Carrier's have adequate and effective business rules for implementing and paying payphone compensation.



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## **Audit Process & Procedures**

Our audit reports on all nine (9) points listed in the Order. The guidelines used to conduct and prepare the report are established in the AICPA's Statements on Standards for Attestation Engagements (SSAE), specifically, SSAE 10, AT Section 101 Attest Engagements and AT Section 601 Compliance Attestation.

Those standards required that we:

- 1) Have adequate technical training and proficiency in the attest function.
- 2) Perform the attest function using practitioners having adequate knowledge of the subject matter.
- 3) Evaluate the subject matter against suitable criteria such as:
  - a) *Objectivity* – free of bias
  - b) *Measurability* – reasonable consistent measurements, qualitative or quantitative, of subject matter.
  - c) *Completeness* – sufficiently complete so that relevant factors that would alter a conclusion about subject matter are not omitted.
  - d) *Relevance* – criteria relevant to the subject matter.
- 4) Maintain an Independence mental attitude in all matters relating to the engagement.
- 5) Exercise Due professional care in the planning and performance of the engagement.
- 6) Obtain sufficient evidence to provide reasonable basis for our conclusion expressed in the report.

IDT has designed and implemented an in house call tracking system. IDT utilizes the services of an outsourced clearinghouse; Billing Services Group (BSG) formerly Billing Concepts to process Company provided CDR, compensate PSP's and satisfy all FCC mandated reporting requirements. We have attached BSG's SAS 70 report as Appendix "A". The scope of this audit is Q1 2008 which is the latest quarter that IDT has processed and remitted compensation to PSP's.



### ***PAYPHONE COMPENSATION Policies & Procedures***

IDT has established and documented policies & procedures specifically in compliance with the Dial Around Compensation FCC order. These include, but are not limited to:

1. Backup Policy
2. Core Security / Critical Data Requirements Policy
3. Defect Tracking Process
4. Software Quality Testing Process
5. Change Control Policy
6. Host / Server Security Policy
7. Password Policy
8. Log Tracking & Archive Process
9. Physical Security Policy
10. Information Access Control Policy
11. Monitoring Policy
12. Firewall Policy

GSA has verified with Adam Kahn and Frank Schmidt that these policies are in effect. In addition, through interviews it was determined that no changes can be made to the software controlling the call tracking system without appropriate approvals. IDT Managers confirmed that no changes were made to any systems or processes that would affect the outcome of data retrieved and used in the compensation system. IDT management has provided GSA written attestation to this end.

### ***Responsible Dedicated Staff***

IDT has dedicated staff responsible for tracking, compensating, reporting and resolving disputes concerning completed calls as follows:

1. Carl W. Billek, Senior Regulatory Counsel is responsible for drafting necessary business requirements.
2. The Director of Operations Support Systems, Frank Schmidt, is responsible for developing & maintaining systems to create payphone call records from switch records.
3. Craig Brill, the CNS Operations Manager, Craig Brill, is responsible for implementing & maintaining procedures that check the validity of identified payphone records.
4. The Associate VP of Telecom Finance, Mark Rabizadeh, is responsible for implementing & maintaining procedures that create final compensation data sets.



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  6. The Reporting Analyst, Mindy Zimmerman is responsible for developing compensation tracking reports.
  7. Mark Rabizadeh, the Associate VP of Telecom Finance, is responsible for dispute resolutions.

### ***Data Monitoring Procedures***

IDT has developed a systematic reporting process to generate monthly and quarterly reports on payphone call counts, numbers called, and info digits used.

These reports at the least reflect:

- a) Trends of switch traffic volumes entering their payphone compensation systems.
- b) Possible fraud on potential illegitimate payphone calls.
- c) Trends of excluded calls.
- d) The capability to develop customized reports to help resolve disputes.
- e) Capacity for other appropriate trending reports.

GSA has reviewed, documented and summarized these reports. We found them to be valid and accurate. Through interviews with Adam Kahn, Mark Rabizadeh, Frank Schmidt and Craig Brill, GSA verified that these reports are relevant and monitored. Mr. Billek indicated that employees charged with monitoring the compensation system can request customized reports necessary for analysis and monitoring purposes. GSA documented this by requesting data not normally produced through the call tracking system and reporting data files to BSG. We cross referenced various reports which should contain similar data; we did find minor discrepancies in master documents furnished to BSG and supporting switch reports. We discussed this with client representative, Carl Billek, and it was determined that the discrepancy was due to payphone calls originating in Canada and Domestic payphone originated calls which terminated in the company's IVR or Customer Service Centers. This information satisfactorily supported the difference in our analysis.



### ***Compensation Assurance Protocols***

IDT has established procedures which guarantee that the company will remain in compliance with current FCC requirements. These procedures ensure that software, personnel, or any other network changes or additions to the payphone compensation process are done in accordance with guidelines and approvals documented in aforementioned procedure section and do not adversely affect its call tracking capabilities.

GSA has previously reviewed these procedures with the client. GSA conducted interviews with Frank Schmidt and Craig Brill the responsible parties for software assurance. Mssrs. Brill and Schmidt verified that there have not been any significant changes to the program code, stored procedures or report systems for the call tracking system or payphone compensation system to date. GSA has received from client, written attestation to the consistency of all software code and reporting systems.

### ***Compensable Call File and Reporting***

IDT pulls all data directly from Company CDR and prepares online reports for utilization in the compensation process. The Company compiles appropriate call detail and electronically transmits this data to BSG for matching and payment. This process extracts data monthly, and then compiles the data when a complete quarter has been accumulated. GSA has previously reviewed the documented process and found it to be complete and accurate, and client has attested that the process as documented is still in effect.

Client provided GSA with a quarterly switch file. Our review of the file determined that it contained all the necessary data to perform the ANI match and to prepare detailed reports for compensation to each separate PSP or Aggregator. GSA also reviewed the compensation results files provided to IDT by BSG. We were able to match the records in the file with the summary records provided to us by the client. We concluded that these files clearly indicated the results of the matching process; specifically total records, total calls, total anis as well as the subset of payphone originated calls and matched anis. GSA also received and reviewed the quarterly compensation invoice from BSG to IDT, describing the amount needed to fund payments to the PSP's. These files and documents are complete and accurate. Client also provided GSA with the wire transfer advice clearing the quarterly invoice from BSG.





### ***Dispute Resolution Procedures***

IDT has assigned its representative, Associate VP of Telecom Finance, Mark Rabizadeh, as the individual responsible for interfacing with BSG. BSG is the first contact for a PSP to request additional information regarding payphone originated calls. BSG has previously provided its detail procedure for handling disputes from PSP's. GSA found the procedure to be adequate and indicative of industry standards. If BSG cannot determine an appropriate answer to a payment question, they are directed to the IDT responsible party. This process is further outlined in the Companies Dispute Resolution procedure documented in previous audits.

GSA has concluded that the responsible party is knowledgeable and has the tools available to complete this function for IDT. Carl Billek Senior Regulatory Counsel indicated that no disputes have been brought to IDT's attention since the last system audit conducted in 2007.

### **Compensation Verification**

GSA has ascertained that IDT has properly compensated PSP's through the 1<sup>st</sup> Quarter of 2008. We have reviewed Q108 payment files and verified these records against Company provided CDR and found no discrepancies. In addition, BSG has verified that funds were transferred to BSG and remitted to the appropriate PSP's.

### **Audit Conclusions**

#### ***FCC Relevant Rules Accurately Stated***

IDT has established, defined, and documented in accordance with relevant FCC Rules each of the following:

- Per-call rate.
- Per-phone requirements.
- Calls included as compensable calls
- Definition of completed call.
- Reporting requirements.
- Data Storage Requirements.



### ***Established Security Protocols***

IDT has implemented security protocols to limit access to call tracking systems in a controlled environment to authorized personnel.

Monitoring tracking systems have been installed to limit access to the company's call tracking system.

Access to compensation systems is controlled and monitored as well as limited to authorized personnel through security measures which have been implemented.

### ***Audit Findings***

IDT Telecom, which provides telecommunications services to consumers and businesses, including prepaid and rechargeable calling cards, local, long distance and wireless phone services, wholesale carrier services, and a range of voice over Internet protocol (VoIP) communications services began operations in 1993. GSA has tested and documented that the compensation system in use as of the date of this report is effective and complete. GSA has validated payments made for Q1 of 2008. The Company is in compliance for the period audited and compensation has been appropriately made to the PSP's or Aggregators for the period.



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*Exhibit A*



Padgett Stratemann & Co. LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Independent Service Auditors' Report

To the Board of Directors  
BSG Clearing Solutions, Inc.  
San Antonio, Texas

We have examined the accompanying description of the controls of BSG Clearing Solutions, Inc. ("BSG") applicable to recordkeeping, reporting, and payment services provided to its clients by the Dial Around Compensation ("DAC") team of BSG. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of BSG's controls as they relate to DAC; (2) the controls, included in the description, were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and user organizations applied those aspects of internal control contemplated in the design of BSG's controls; and (3) such controls had been placed in operation as of March 31, 2008. The control objectives were specified by management of BSG. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description of the aforementioned controls of BSG, presents fairly, in all material respects, the relevant aspects of BSG's controls that have been placed in operation as of March 31, 2008. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and user organizations applied those aspects of internal control contemplated in the design of BSG's controls.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specified controls, as listed in Section IV, to obtain evidence about their effectiveness in meeting the related control objectives during the period from April 1, 2007 to March 31, 2008. The specific control objectives; controls; and the nature, timing, extent, and results of the tests are listed in Section V. This information has been provided to DAC customers of BSG and to their auditors to be taken into consideration, along with information about BSG's customers' internal controls, when

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making assessments of control risk for BSG's customers. In our opinion, the controls we tested (Section V) were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance the control objectives specified in Section IV were achieved during the period from April 1, 2007 to March 31, 2008.

The relative effectiveness and significance of specific controls at BSG and their effect on assessments of control risk at BSG customers are dependent on their interaction with internal control, and other factors present at individual BSG customers. We have performed no procedures to evaluate the effectiveness of internal control at individual BSG customers.

The description of controls at BSG is as of March 31, 2008, and information about tests of the operating effectiveness covers the period from April 1, 2007 to March 31, 2008. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the system in existence. The potential effectiveness of specific controls at BSG is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that (1) changes made to the system or controls, (2) changes in processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions.

This report is intended solely for use by management of BSG, its DAC customers, and the independent auditors of such customers.

*Padgett Shattman & Co.*

Certified Public Accountants  
June 20, 2008



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*Exhibit B*



IDT Telecom, Inc.

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**Report of Management on Compliance with Applicable Requirements  
of Section 64.1310(a)(1) of the FCC's Rules and Regulations**

The management of IDT Telecom, Inc. ("IDT" or "the Company")<sup>1</sup> is responsible for establishing and maintaining adequate systems and processes for its Pay Telephone Call Tracking System and for ensuring the Company's compliance with the applicable requirements of Section 64.1310(a)(1) of the FCC Report and Order in CC Docket No. 96-128, released on October 3, 2003, regarding *The Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*.

Management has performed an evaluation of IDT's compliance with the applicable requirements of CC Docket No. 96-128 using the criteria in 64.1320(c) as the framework for the evaluation. Based on this evaluation, we assert that as of July 1, 2004, the Company complies with all applicable requirements of CC Docket No. 96-128.

We have prepared the required assertion statements relating to the Company Payphone Call Tracking Systems.

Company is acknowledged as the "Completing Carrier" in the following call scenarios:

- Local Toll and Local Operated assisted calls with the Info Digits (7, 27, and 70) completed by Company ("0" indicator).

All assertions for Company are from the point Company has visibility to the call tracking data.

Company utilizes a payment clearinghouse for payphone compensation settlement. As such, Factors (6) and (7) in their entirety and Factors (8) and (9) collectively are covered under the SAS-70 compliance report issued for the clearinghouse. Company has procedures in place to verify that controls and procedures relating to these assertions have been established and maintained. An independent accounting firm has performed an independent assessment of the effectiveness of such controls.

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<sup>1</sup> "IDT" includes all IDT Telecom affiliates and subsidiaries.



Company represents the following assertions where it is identified as the Completing Carrier:

**FCC Compliance Factor (1) – Company (“Completing Carrier”) procedures accurately track calls to completion.**

**FCC Compliance Factor (2) – Company (“Completing Carrier”) has a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone-completed calls.**

**FCC Compliance Factor (3) - Company (“Completing Carrier”) has effective data monitoring procedures.**

**FCC Compliance Factor (4) - Company (“Completing Carrier”) adheres to established protocols to ensure that any software, personnel, or any other network changes do not adversely affect its payphone call tracking ability.**

**FCC Compliance Factor (5) – Company (“Completing Carrier”) creates a compensable payphone call file by using internal customer information matched to toll free records. This file contains all payphone traffic with payphone identifiers.**

**FCC Compliance Factor (6) – Company (“Completing Carrier”) has procedures to incorporate call data into required reports and making payment to PSPs.**

**FCC Compliance Factor (7) - Company (“Completing Carrier”) has implemented procedures and controls needed to resolve payphone compensation disputes.**

**FCC Compliance Factor (8) – Critical controls and procedures have been tested by Company (“Completing Carrier”) to verify that errors are insubstantial.**

**FCC Compliance Factor (9) – Company (“Completing Carrier”) has in place adequate and effective business rules for implementing and paying payphone compensation, including rules used to: (i) identify calls originated from payphones; (ii) identify compensable payphone calls; (iii) identify incomplete or otherwise non-compensable calls; and (iv) determine the identities of the payphone service providers to which Completing carrier owes compensation.**

Dated: 10/29/08

  
\_\_\_\_\_  
Marcelo Fischer  
Chief Financial Officer  
IDT Telecom, Inc.

